

USAID/Russia

Annual Report

FY 2004

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Russia

Performance:

In the past year, Russia realized significant changes in banking and economic reform policy but began to backslide in democratic values. USAID's programs have spearheaded the transition to a market-oriented economy while making steady headway toward building civil society and strengthening rule of law within a difficult environment.

During this past year, economic policy reform in Russia continued as the Government of Russia (GOR) demonstrated its strong commitment to the development of a market economy. Significant progress was realized, as demonstrated by the Government's intensive efforts to join the World Trade Organization (WTO), the passage of significant deposit insurance law that will take effect in early 2004, and a promising start to the much-awaited banking reform program. New deregulation laws led to considerable reductions in actual administrative costs of firms in licensing and inspections. Despite signs of progress, the level of regulatory burden on small businesses remains high. USAID anticipates that the Government's commitment to economic reform will continue during the next year.

Despite steps toward Russia becoming a "managed democracy" and mixed reviews about Russia's transition to a more democratic society, USAID's programs have directly affected the lives of citizens as regional independent media outlets grew and advocacy organizations developed their capacity to both foster and focus citizen participation. Although there are signs of consolidating state power and continued intimidation of independent media, civil society continues to grow. Development change rarely occurs quickly or linearly, particularly in the area of democracy and governance. A more open, participatory society in Russia will entail extensive changes in the post-Soviet culture, requiring generational transition to those who will have grown up in an era with different aspirations and experiences. However, over the short to medium-term, results from our programs prove that we are having a significant impact and will have even greater resonance if we stay the course.

Recent parliamentary elections raised new concerns about the strength of Russia's fledgling democratic institutions. The OSCE declared that "... State Duma elections do not correspond to international requirements and pose a threat to Russian democratic reforms... OSCE observers who monitored the elections have the impression that these elections have demonstrated regression of democratic processes in the country." While the election apparatus worked smoothly, critics charged that the government took advantage of its position to dominate the airwaves during the closing weeks of the campaign, shut out opponents, and manipulate the administrative apparatus to ensure a heavy turnout for its favored party. The outcome, a heavy gain for "United Russia," caused a number of commentators to describe the elections as a major step back from democratic reform. They referred as well to two recent laws affected. In anticipation of the State Duma and Presidential elections, the government passed new legislation that significantly restricted election reporting, including limitations on the reporting of backgrounds and positions of candidates. A law on political parties, passed in May 2001, limited the influence of political parties and reduced them in number. The Duma election results considerably weakened political opposition. In this controlled political environment, USAID's work to strengthen the voices and activity of citizens takes on even greater importance.

In the health sector, USAID's programs continue to make strides in introducing, adapting, and implementing international approaches to improve the quality of health services, control tuberculosis, prevent HIV/AIDS, ensure the welfare of social orphans, and improve maternal and child care. The growing threat of a generalized HIV/AIDS epidemic in Russia, which experienced the world's fastest rate of increase in new infections, led to an expansion of USAID's HIV/AIDS prevention efforts. A major new activity, Healthy Russia 2020 is the centerpiece of the Missions focus on HIV/AIDS and responds to the

need to accelerate the broad dissemination and adoption of modern approaches to health care, including an increased emphasis on preventive care and maternal to child transmission.

U.S. Interests and Goals

In setting USAID/Russia's priorities, we have focused on both thematic considerations and geographic concerns of U.S. interests and foreign policy goals. We then organized our priorities in the context of Russia's political and economic transformation. Our top three priorities this year remain democracy - development of a civil society, independent media, and rule of law; health - combating infectious diseases; and economic growth - support for small and medium-sized businesses and strengthening the banking sector. Support for small and medium enterprises (SMEs) is vital to the development and diversification of Russia's market economy and the growth of the middle class. It is also the area likely to produce tangible opportunities for U.S. businesses.

Important Challenges

USAID's program resources are small relative to Russia's large population, vast physical expanse, and the complexity of the issues. These factors pose a major challenge to our ability to have a significant and lasting impact on the country and have led us to emphasize two key approaches in our program design.

The first approach takes advantage of Russia's highly educated population by introducing and disseminating successful methodologies that address the country's most pressing problems. USAID has successfully replicated these methodologies in the areas of municipal finance, strategic planning, tuberculosis control, health care delivery, targeting of social services, child welfare, non-bank and bank financing of SMEs, news exchange systems and public-private partnerships to combat corruption. Nevertheless, there is a need to focus on disseminating and replicating these successes to the rest of the country. One such example is our health program, Healthy Russia 2020, which uses communication and networking strategies to broaden awareness and communicate HIV/AIDS prevention across the country.

The second approach has been to build the capacity of Russian institutions to influence Russia's transition. Over the past eleven years, USAID has supported Russian efforts to create and strengthen institutions such as the Institute for Urban Economics and the Center for Fiscal Policy . These two institutions, created through USAID activities, now play important roles at the national, regional, and municipal levels in shaping the future direction of the country. For such key partner institutions, the challenge is to develop a sufficient support base for them to be sustainable after USAID funding ends.

Key Achievements

The USAID program produced impressive results in FY 2003. The Mission built on lessons learned through implementation and made significant gains in the areas of economic policy, SME non-bank finance sustainability, anti-corruption, maternal and child health, and civil society development. Specifically:

1. Policy Reform: USAID achieved several notable successes in intergovernmental fiscal relations through its Russian grantee, the Center for Fiscal Policy. Foremost was the Center's work on a new law clarifying responsibilities across all levels of government and on a formula for distributing budget revenue at the local level. The Financial Services Volunteer Corps contributed to draft legislation on credit bureaus and deposit insurance which led to a landmark deposit insurance law. Paving the way for significant private sector capital to be invested in Russia's developing mortgage market, a new Law on Mortgage-backed Securities developed with USAID's assistance was adopted in September 2003.

2. SME Microcredit Sustainability: Recognizing hesitancy of commercial banks to lend to SMEs, USAID helped channel loans to SMEs through a nationwide network of non-bank, non-traditional financial institutions. These organizations are moving toward sustainability and obtaining funds from commercial sources. The cumulative number of loans made under these programs exceed 114,000 and the amount lent is now over \$129 million, a doubling in the past year. More than 70 per cent of the loans have been

made to women-owned businesses, and all of the programs are committed to providing over 50 per cent of their loans to women entrepreneurs.

3. Civil Society: Civic participation is still new concept in Russia, and the sector remains threatened by efforts to centralize power and restrict independent organizations. Nevertheless, there are signs that citizen action is growing. For example, this year USAID's model for volunteer mobilization was disseminated across twelve regions, through a Siberian Spring Charity Week, involving more than 160,700 volunteers - an increase of 65,000 people over last year. The participants delivered services and collected humanitarian aid exceeding \$297,000. The second All Russia Civic Forum brought together over 3,000 federal, regional and local government officials with CSO activists, political analysts and businessmen to discuss a national strategy to assist vulnerable populations. The second bi-annual All-Russia Conference of Civic Organizations gathered over 300 representatives of human rights organizations to explore strategies for cooperation between CSOs, authorities, businesses and political institutions.

4. Rule of Law: Only ten years ago, the framework for a modern legal system was virtually non-existent, and Russia's judiciary was totally subjugated to the will of the executive branch. USAID's assistance to develop an independent judiciary and to professionalize legal practitioners has had a significant impact. There remain problems with selective prosecution, pressures on the judiciary restricting its independence, and uneven application of laws and enforcement of judicial decisions. Nonetheless, USAID has helped introduce transparency into the process of disciplining errant judges. USAID is the only foreign donor to have worked with the Supreme Qualifying Collegium of Judges (SQC), the body that enforces the Code of Ethics of the Russian Judge. Recently, the SQC and the Russian Council of Judges, a USAID partner, announced the formation of a Judicial Ethics Commission, patterned after an analogous body of the U.S. federal judiciary, which has worked with the Council and the SQC since 1998 through USAID. This Commission will advise judges on whether a contemplated act would be unethical. This is a dramatic step forward for the judicial community in Russia. In addition, with USAID funding, Public Interest Legal Clinics sponsored workshops on jury trial techniques for judges from 84 of Russia's 89 regions, helping to implement the new Criminal Procedure Code which mandates criminal jury trials nationwide.

5. Independent Media: In 2003, responding to continued demand from small, previously isolated TV stations, USAID's independent media activity opened four new regional centers raising to ten the number of training centers. More than 1,000 participants from over 200 small stations have been trained in management, journalism, sales and production skills since the project began. Independent media supported other key USAID programs as a record number of Russian regional TV companies participated in public awareness campaigns to support assistance to Russian orphans and abandoned children, to discourage drug abuse, to raise awareness of children's rights and to promote media independence.

6. Health: Maternal and child health issues have long plagued Russia's ailing health care system. Over the life of USAID's maternal and child health project, 42 maternity hospitals in the Tver region alone reduced maternal deaths to zero and neo-natal mortality from respiratory distress by 64 per cent by introducing international best practices. Reforms in maternal and infant health practices achieved significant impact in two pilot regions: a seven per cent decrease in abortion rates, an increase to 73 per cent for exclusive breastfeeding rates and a two-fold increase in family planning counseling. The Ministry of Health has embraced these positive results and has asked USAID to replicate its successful models in other regions. Thirty regions have expressed interest in MCH models, and ten of them will be selected for a replication of this successful program.

7. Environment: USAID's environment program has improved the performance of ecobusinesses and the associations that support them. USAID has contributed to increased profitability and sustainability of the sector and to an increase in trade and contracts with businesses in the United States and elsewhere. Russian businesses now have the capacity to implement Environmental Management Systems required by WTO regulations, therefore increasing Russia's ability to compete in the global marketplace.

Conflict

Despite a GOR offer of amnesty in 2003 to Chechen separatists, few rebels laid down their arms. The conflict in Chechnya continues to create instability in the North Caucasus region. Incidents by Chechen rebels over the last fiscal year, including the hostage taking at a Moscow theater, destruction of the main government building in Grozny, and a recent suicide bombing in downtown Moscow demonstrate the disruptive impact of the conflict. Authorities suspect Chechen rebels are also behind the explosion at the Ingushetia regional headquarters of the Federal Security Service. The conflict exacts a huge toll on civilians. Violations of international humanitarian law - including forced disappearances, extrajudicial executions, and arbitrary detention - by Chechen and Russian forces continue. International human rights organizations report the forced return of approximately 20,000 displaced persons to Chechnya by the Russian government, despite life-threatening conditions. In addition, in 2002 Chechnya reported the highest number of casualties caused by landmines in the world, with 5,695 cases recorded compared to the next highest figure of 1,286 in Afghanistan. The North Caucasus region is not a prime focus of USAID programming. USAID provides \$50K in support to a Russian CSO that provides social and legal services to internally displaced persons.

Gender

The number of women who die at the hands of their husbands or relatives every year in Russia is roughly equal to the total number of soldiers killed during the ten years of war in Afghanistan. Although an estimated 14,000 women die each year from domestic violence, few perpetrators are prosecuted. The lack of legal protection for women and the wide social acceptance of domestic violence impede legal action. Experts attribute the increase in domestic violence over the last decade to economic distress exacerbated by alcohol abuse. During the Soviet era, when women worked along side men under similar conditions, women were less dependent on men than they are today. With high levels of unemployment, many women remain at home to care for their families, rendering them economically dependent and unable to leave abusive situations. In addition to the violence faced at home, women caught in the Chechen conflict fall victim to torture and rape. Women are also the victims of human trafficking. The U.S. Department of State reports that Russia is a source country for human trafficking for sexual exploitation. In 2003, Russia graduated from Tier 3 to Tier 2 for its efforts to combat human trafficking.

USAID/Russia targets the needs of women in its programming. For example, the Mission supports activities that address serious health issues faced by women, including domestic violence. USAID/Russia also addresses economic concerns of women. The percentage of female recipients of all loans in SME programs is 70 per cent (although, the proportion of women drops significantly as loan sizes increase). Additionally, the USAID-funded Consortium of Women's Non-governmental Associations promoted the draft law On State Guarantees of Equal Rights and Equal Opportunities for Women and Men in the Russian Federation. The Law passed the Duma in April 2003.

Building trade capacity

Building trade capacity is not an explicit objective of the Mission's portfolio, but several elements do contribute to expanding Russia's trade capacity. Analyses by USAID-funded Russian think tanks have contributed to the government's efforts to prepare for WTO accession and regional governments' efforts to create a better environment for foreign investment. Both our small business program and our environment activities are supporting efforts by Russian businesses to comply with international standards international accounting standards (ISO 9000 and ISO 14000) for Russian firms to participate in the global marketplace. Our support for the Alaska-Sakhalin Working Group is building trade capacity by supporting efforts to improve air travel services and environmental management of the oil and gas sector. USAID also continues to support the American Business Center on Sakhalin Island, a USG effort to facilitate investment by U.S. firms on the island.

Country Close and Graduation:

Results Framework

118-0130 Accelerated Development and Growth of Private Enterprises

118-0131 Small and Medium-size Enterprise Sector Strengthened and Expanded

SO Level Indicator(s):

Percentage of GDP represented by the SME sector

131.1 Policy Environment for Small and Medium Enterprises Strengthened

131.2 Access to Finance for Small and Medium Enterprises Increased

131.2.1 Policy Environment for Non-Bank Financial Institutions Providing Services to SMEs Improved

131.2.2 Financial Services to SMEs Expanded

131.3 High Quality Business Services to SMEs Strengthened and Expanded

131.4 More Students Educated in Business Practices, Civics and Ethics

118-0140 Improved Economic Infrastructure to Support Market-Oriented Growth

118-0141 Market-Oriented Reforms Developed and Implemented in Selected Sectors

SO Level Indicator(s):

Ratio of commercial bank domestic lending to GDP

Russia enters WTO

Tax collections

141.1 Independent Russian Economic Think Tanks Strengthened

141.2 Resources to Russian Businesses and Entrepreneurs Efficiently Channeled by Banking Sector

141.3 Business Environment for Trade and Investment Improved

141.4 Fiscal Policies Developed and Adopted Improved

118-0160 Increased Environmental Management Capacity to Support Sustainable Economic Growth

118-0161 Environmental Resources Managed More Effectively to Support Economic Growth

SO Level Indicator(s):

Number of improved environmental practices adopted in targeted regions

161.1 Eco-Businesses in Targeted Sectors Strengthened

161.2 Operating Efficiency of Businesses Adopting Environmentally Friendly Practices Improved

161.3 Practices that Improve the Environmental Quality of Services Adopted by Municipalities

161.4 Forestry Management Practices Strengthened

118-0210 Increased, Better Informed Citizens' Participation in Political and Economic Decision-Making

118-0211 A More Open, Participatory Society

SO Level Indicator(s):

Citizen participation index

Number of volunteers in selected regions

211.1 Sources of Non-State Information that are Accessible to the Public Increased and Improved

211.1.1 Public Information Provided through NGOs Increased

211.1.2 Access to Legal Protection for Media Increased

211.1.3 Business, Professional, and Ethics Practices in the Media Sector Strengthened

211.1.4 Public Interest Information Available on the Internet Increased

211.2 Civil Society and Advocacy Institutions Strengthened

211.2.1 Cooperation between NGOs, Government, and Business for Public Purposes Increased

211.2.2 Citizens' Interests More Efficiently Represented

211.2.3 Financial, Organizational, and Outreach Capacity Increased

211.3 Democratic Culture for Citizen Participation Strengthened

211.3.1 Civic Education Programs for Youth Improved

211.3.2 Patterns of Volunteerism, and Charitable Giving Strengthened

211.3.3 Number of Citizens Participate in Direct Action Activities Increased

118-0220 Strengthened Rule of Law and Respect for Human Rights

118-0221 Legal Systems Strengthened

SO Level Indicator(s):

Diversity of cases brought

Poll results on public and professionals' confidence in legal procedures

221.1 Public Awareness of Legal Rights Increased

221.2 More Lawyers Skilled in Representing Clients

221.3 Judicial System More Transparent, Independent and Efficient

118-0231 Local Governance Made More Responsive and Accountable

SO Level Indicator(s):

Citizen satisfaction with local governance performance

231.1 Local Governments More Effective in Managing Resources

231.1.1 Local Officials More Knowledgeable and Skilled in Democratic Governance

231.1.2 Local Financial Management Practices are Improved

231.1.3 Local Policies and Procedures Developed and Adopted to Stimulate Economic Growth

231.2 Local Governments Operate in Sustained Partnership with Their Communities

231.3 Equity, Effectiveness, and Efficiency in the Delivery of Goods and Services Increased

231.4 Legal Environment Improved for Governments to Be More Responsive and Accountable

118-0320 Improved Effectiveness of Selected Social Benefits and Services

118-0321 Use of Improved Health and Child Welfare Practices Increased

SO Level Indicator(s):

Abortion rates in demonstration sites

Number of children at risk of institutionalization remaining in family care in demonstration sites

Percentage of population in Russian with access to international approach for tuberculosis treatment and control

321.1 Access to More Effective Primary Health Care Services Increased

321.1.1 Use of Evidence-Based Practices in Women/Infant's Health and Non-Communicable Chronic Diseases Increased

321.1.2 Quality Improvement Methodologies Applied to Primary Health Care

321.1.3 Health Financing Redirected to Primary Health Care (other donors)

321.2 Improved Prevention and Control Practices Adopted to Reduce the Spread of HIV/AIDS, TB and STDs

321.3 Demand for Preventive Health by Individuals, Communities and Decision-Makers Increased

321.3.1 Awareness of Preventive Health Care Benefits Increased

321.3.2 Capacity to Mobilize for Preventive Health Increased

321.3.3 Multi-Sectoral Networks Established to Promote Health

321.4 New Child Abandonment Prevention Models and Policies Implemented

118-0410 Special Initiatives

118-0420 Program Support